

AR30

PAN CANA

annual report
1977

PAN CANA INDUSTRIES LTD.

DIRECTORS

KENNETH G. HEFFEL	Businessman.
KENDALL JENNINGS	Chairman of the Board, President and Chief Executive Officer.
K. MICHAEL JENNINGS	Attorney at Law, Tacoma, Washington, U.S.A.
NEIL L. JENNINGS	Barrister and Solicitor Corporate Secretary.
THOMAS H. STEVENSON	Director of Permanent Concrete Ltd., Standard Paving and Materials Ltd., and Hub Equipment Ltd.

OFFICERS

KENDALL JENNINGS	President and Chief Executive Officer.
NEIL L. JENNINGS	Corporate Secretary.
DEL F. ZINGLE	Treasurer and Group Controller.

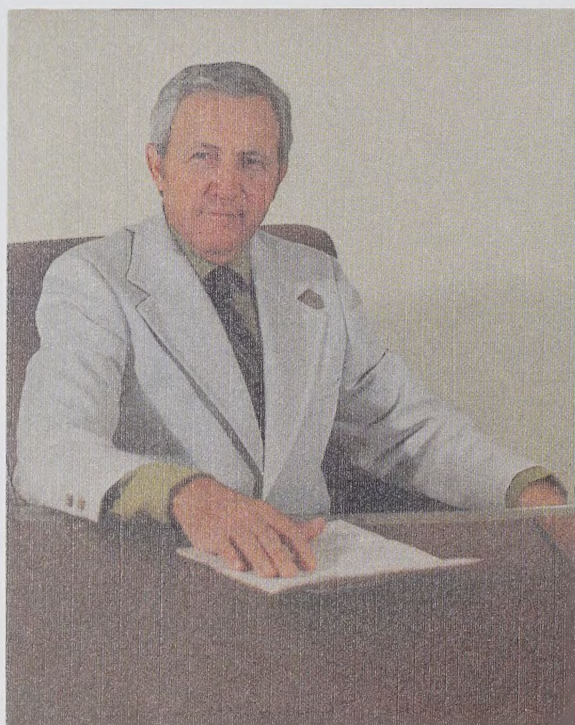
ANNUAL MEETING

The Annual Meeting of the Company will be held at the Holiday Inn, Eighth Avenue and Sixth Street S.W., Calgary, Alberta, on Tuesday, January 24, 1978, at 10:00 A.M.

1977 HIGHLIGHTS

	1977	1976
Revenue - from continuing operations	\$ 6,338,527	\$ 4,625,260
Loss - from continuing operations	883,329	469,815
<i>per share</i>	21¢	12¢
Cash Flow - from continuing operations	174,483	162,749
Increase in Fixed Assets	1,834,473	3,025,651
Increase in Long-Term Debt	1,450,738	2,062,929
Working Capital	2,495,239	1,384,822
Shares Outstanding	4,116,413	4,116,413
Number of Shareholders	1,193	1,245

PRESIDENT'S REPORT TO SHAREHOLDERS



Results For The Year

For the year ended September 30, 1977, the Company lost \$883,329 on its trading activities and, in addition, sustained a further loss of \$322,713 on operations and wind-down of the Construction Division. The final loss for the year was \$1,120,301 or 27 cents per share.

Oil And Gas Operations

Production levels for the year ended September 30, 1977, did not meet expectations and were about one-third below normal. This was due to installation of compression facilities and shutdowns and delays directly or indirectly attributable to the present gas surplus in Alberta.

It appears unlikely that any of our shut-in gas reserves will be brought on stream until the last quarter of 1980. This will delay any realization of cash flow from these Canadian properties for at least another 2 to 3 years. Fortunately, these conditions do not apply to our United States production which should start to produce cash flows next year.

During the year we participated in the drilling of 23 wells resulting in 2 oil wells, 14 gas wells and 7 dry holes. PanCana's net share of the successful projects was approximately 1 oil well and 6 gas wells. In addition, 3 further wells were drilled at no cost to us on land in which we hold interests. These resulted in 1 additional oil well and 2 dry holes.

We have had prepared by independent consulting reservoir engineers an evaluation of our total Canadian reserves and land holdings. This evaluation shows remaining Canadian proven and probable reserves at September 30, 1977, of 1,993,000 barrels of oil and 34.8 billion cubic feet of natural gas before royalty interests (1,314,000 barrels of oil and 21.0 billion cubic feet of gas after royalty interests). The estimated present worth of the future cash flows to be derived from these reserves at a 12 percent discount rate is in excess of \$18,000,000. Our unproven Canadian land holdings have also been valued at over \$1,250,000. The above reserve and land evaluations do not include any values in respect to our U.S. interests. We anticipate that a separate reserve evaluation on our U.S. properties will be commenced in the near future.

Your Company is participating in an exploration program in East Texas. During the year ended September 30, 1977, the first exploratory well was drilled in Freestone County, Texas, and was completed as a gas discovery in the Cotton Valley Limestone and Bossier Sand formations. A gas sales contract has been executed at an initial price of \$1.95 per thousand cubic feet, and the well was put on production in September 1977. Since that time the well has been flowing at a rate of approximately six million cubic feet per day. The Company's working interest in the well is 13 $\frac{1}{3}$ % until payout, reverting to 10% thereafter. It is anticipated that an offset well will be commenced prior to the time of the Annual General Meeting of Shareholders.

In addition, the participants in the East Texas program have purchased a shut-in, low BTU, sour gas well in Hopkins County, Texas. Production tests on the well have been undertaken with favourable results. A gas sales contract has been negotiated and it is anticipated that the well will go into production during the second calendar quarter of 1978. The contract provides for delivery of seven million cubic feet a day from the outset of production, with an increase in delivery to approximately ten million cubic feet a day as and when plant capacity becomes available. The Company's working interest in this well is also 13 $\frac{1}{3}$ %, reverting to 10% after payout.

The East Texas participation will continue under the present agreement until October 1978. During that time, it is anticipated that at least three more

exploratory prospects will be drilled. Progress has been hampered to date by the extreme shortage of drilling rigs in the area, but we now have a rig under contract.

In the Eunice area of New Mexico we participated in the drilling of two oil wells in the Drinkard formation. In 1978 we will be drilling at least two follow-up wells in this program. Our land immediately offsets acreage on which Gulf Oil have drilled five successful oil wells and one gas well. Our working interest in this program is 33 $\frac{1}{3}$ %.

In 1976 we purchased a 50% interest in a number of oil producing properties in East Kansas with a view to instituting a secondary recovery scheme. The producing formation is the Squirrel Sandstone at a depth of approximately 1100 feet. A demonstration polymer flood was carried out by Brazos Oil and Gas, a subsidiary of Dow Chemical Company, in the mid-1960's on a similar property with satisfactory results.

In 1977 we purchased the remaining interest in the property and instituted a flood feasibility study on one lease. This study, prepared by Dow Chemical, confirms the suitability of the property for a polymer flood. The forecast recoverable reserves are 180,000 - 220,000 barrels of oil from the seventy-acre lease. Forecast payout is 1.05 years. Work on the final flood design is now proceeding.

CONSTRUCTION

For the past two years our Construction Division has been running at a very low level of activity and has not produced earnings commensurate with our level of investment. During this year Mr. Bain, the manager of this Division since 1969, also expressed to the Directors his wish to resign from the Company. After considering alternate courses of action, the Directors decided that it would be most advantageous to the Company to wind-down the affairs of the Division and to dispose of the equipment. This process commenced in the fourth quarter of the year and final disposals were made in October. The full results of disposal of equipment and wind-down costs are reflected in the 1977 financial statements.

ELECTRONICS

Our Electronics Division recorded their most successful year ever. The efforts of our staff combined with the continuing high level of activity in the Canadian exploration industry and the increasing sophistication of seismic equipment and techniques should ensure the continuation of excellent results in 1978.

EQUIPMENT DIVISION

The results of this Division have been disappointing in 1977. The general construction market is not buoyant and pipeline activity has been at a low ebb. We have, however, made progress in market penetration and, in particular, our equipment rental income has been the bright spot in our results. The addition of the Esco franchise to our business in the second half of the year will also help future income.

We think that, with constant management attention, the efforts of our staff will maintain the improvement shown towards the end of the year. However, the results for 1978 are still anticipated to be little better than a break-even. We believe that we are advantageously placed to take advantage of the future improved levels of activity as a result of the Alaska gas pipeline and the major construction projects in the heavy oil extraction area.

MINING

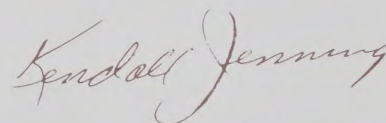
During the year we completed our drilling program on our Nevada properties. At September 30, 1977, we had developed proven and probable reserves of over 3,000,000 tons of comparatively low grade ore averaging .05 ounces of gold per ton. Our work on the first heap-leaching program shows this grade to be economical to process. However, mining and loading of the ore for processing will require a further investment of approximately \$800,000. In view of the size of the total commitment required, the Directors have decided to seek a partner to invest the necessary mining funds to earn an interest in the property.

OUTLOOK

In summary, I believe the long-term outlook for the Company is good, given the following:

- (a) the diverse exposure of the Company in various oil and gas prospects in the United States, which, if successful, will generate cash flow in a relatively short time following discovery; and,
- (b) the Board decision to seek a partner or partners in respect to the mining operation, with the consequent relief of the cash drain previously experienced; and
- (c) a guarded optimism for the prospects of the Equipment Division as the Alaska gas pipeline project comes closer to fruition.

As you are no doubt aware, the Board recently received, with regret, the resignation of Mr. David B. Nicholson. The Board of Directors appreciates his valuable assistance in years past, and it is my pleasure to express thanks to him and wish him well in all future endeavours. By virtue of his resignation I shall be returning to full-time participation in the management of the Company in January 1978. I look forward to the continued outstanding performance and support of the employees of the Company in the coming years to ensure a long-term growth pattern for the Company.



December 23, 1977

PRESIDENT

PAN CANA INDUSTRIES LTD.

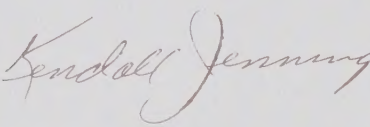
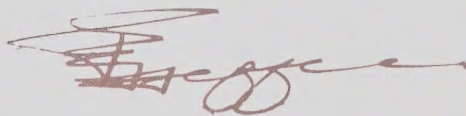
CONSOLIDATED STATEMENT OF EARNINGS

	YEAR ENDED SEPTEMBER 30	
	1977	1976
REVENUE	\$ 6,338,527	\$ 4,625,260
COSTS AND EXPENSES		
Cost of sales and direct operating costs	4,073,282	2,912,068
Mining exploration and development expenses written off	—	333,580
General and administration	1,052,563	683,256
Depreciation and depletion	1,056,713	493,425
Interest on long-term debt	1,009,830	560,645
Other interest	102,124	119,260
	<u>7,294,512</u>	<u>5,102,234</u>
LOSS BEFORE TAX, LOSS FROM DISCONTINUED OPERATION AND EXTRAORDINARY LOSS (GAIN)	<u>955,985</u>	<u>476,974</u>
INCOME TAXES (RECOVERIES)		
Current	(116,959)	66,796
Deferred	44,303	(73,955)
	<u>(72,656)</u>	<u>(7,159)</u>
LOSS FROM CONTINUING OPERATIONS	883,329	469,815
LOSS FROM DISCONTINUED OPERATION, net of tax (Note 2)	84,317	7,017
EXTRAORDINARY LOSS (GAIN) ON SALE OF DIVISIONS, net of tax (Note 2)	<u>152,655</u>	<u>(1,068,609)</u>
NET LOSS (EARNINGS)	<u>\$ 1,120,301</u>	<u>\$ (591,777)</u>
LOSS (EARNINGS) PER SHARE		
Continuing operations	21¢	12¢
Discontinued operation	<u>2¢</u>	<u>—</u>
	23¢	12¢
Extraordinary loss (gain)	<u>4¢</u>	<u>(26¢)</u>
NET LOSS (EARNINGS)	<u>27¢</u>	<u>(14¢)</u>

PANCANA INC.

CONSOLIDATED

ASSETS

		SEPTEMBER 30	
	NOTES	1977	1976
CURRENT ASSETS			
Cash		\$ 43,548	\$ 51,025
Accounts receivable	2	2,538,076	1,204,203
Current maturities of notes receivable		238,389	100,000
Inventories	3	4,021,337	2,815,648
Prepaid expenses and deposits		<u>64,690</u>	<u>103,787</u>
		6,906,040	4,274,663
NOTES RECEIVABLE			
		132,789	758,069
FIXED ASSETS, at cost less accumulated depreciation and depletion			
	4	15,008,904	15,321,050
OTHER ASSETS			
		251,762	227,543
APPROVED BY THE BOARD OF DIRECTORS:			
	Director		
	Director		
		<u>\$22,299,495</u>	<u>\$20,581,325</u>

INDUSTRIES LTD.

BALANCE SHEET

LIABILITIES		SEPTEMBER 30	
	NOTES	1977	1976
CURRENT LIABILITIES			
Bank indebtedness	7	\$ 1,385,275	\$ 468,406
Accounts payable		954,057	910,796
Inventory financing		1,959,191	1,324,781
Income taxes		32,278	26,390
Current maturities of long-term debt		80,000	159,468
		<u>4,410,801</u>	<u>2,889,841</u>
LONG-TERM DEBT	5, 7	8,856,666	7,405,928
DEFERRED INCOME TAXES		2,440,277	2,573,504
		<u>15,707,744</u>	<u>12,869,273</u>
SHAREHOLDERS' EQUITY			
CAPITAL STOCK			
Authorized			
9,450,000 common shares			
of no par value			
Issued			
4,116,413 shares		4,996,221	4,996,221
CONTRIBUTED SURPLUS		1,591,196	1,591,196
RETAINED EARNINGS		4,334	1,124,635
		<u>6,591,751</u>	<u>7,712,052</u>
		<u>\$22,299,495</u>	<u>\$20,581,325</u>

PAN CANA INDUSTRIES LTD.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	NOTES	YEAR ENDED SEPTEMBER 30	
		1977	1976
SOURCE OF WORKING CAPITAL			
Continuing operations		\$ 174,483	\$ 162,749
Increase in long-term debt		1,450,738	2,062,929
Reduction in notes receivable		625,280	—
Sale of fixed assets		1,220,324	235,509
Net proceeds on sale of Divisions	2	984,092	4,133,194
		<u>4,454,917</u>	<u>6,594,381</u>
APPLICATION OF WORKING CAPITAL			
Discontinued operation		265,484	(76,435)
Purchase of fixed assets		3,054,797	3,261,160
Increase in notes receivable		—	91,793
Acquisition of subsidiary		—	1,645,060
Other		24,219	4,102
		<u>3,344,500</u>	<u>4,925,680</u>
WORKING CAPITAL INCREASE		1,110,417	1,668,701
WORKING CAPITAL (DEFICIENCY) at beginning of year		1,384,822	(283,879)
WORKING CAPITAL, at end of year		<u>\$2,495,239</u>	<u>\$1,384,822</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	YEAR ENDED SEPTEMBER 30	
	1977	1976
RETAINED EARNINGS at beginning of year	\$1,124,635	532,858
Net (loss) earnings	<u>(1,120,301)</u>	<u>591,777</u>
RETAINED EARNINGS at end of year	<u>\$ 4,334</u>	<u>\$1,124,635</u>

NOTES TO FINANCIAL STATEMENTS

1. ACCOUNTING PRINCIPLES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all its subsidiaries. All subsidiaries are wholly owned with the exception of W. E. Bolt Equipment Ltd. in which the Company has a 75 per cent interest.

(b) Depreciation

Depreciation, other than on petroleum and natural gas equipment, is provided on a straight-line basis at rates which will amortize the cost of the assets over their estimated useful lives recognizing residual values where appropriate.

(c) Oil and Gas

The Company follows the full-cost method of accounting for oil and gas operations whereby all costs, including overhead expenses incurred in exploring for and developing oil, gas and related reserves are capitalized. These costs are amortized using the composite unit of production method based on estimated proven recoverable reserves. Depreciation of petroleum and natural gas equipment is similarly provided on the composite unit of production method.

The accumulated costs of Canadian and United States oil and gas operations are segregated into separate cost pools and amortization is calculated separately.

(d) Mining

All costs of exploration and development, including overhead expenses, are capitalized. Revenue earned during the course of exploration and development is credited against accumulated costs. These net costs will be amortized by the unit of production method based on estimated proven recoverable reserves. The costs of unsuccessful mining ventures are charged to earnings.

(e) Income Taxes

The Company follows the tax allocation method of accounting under which the income tax provision is based on reported earnings. Accordingly, the Company has provided for deferred income taxes to the extent that income taxes otherwise payable were deferred by claiming capital cost allowances and expensing exploration and development costs in excess of the depreciation and depletion provisions reflected in the financial statements.

(f) Current Maturities of Long-Term Debt

Where long-term debt is specifically secured by charges on revenue-producing assets and it is anticipated that future repayments of the debt will be made out of the future revenue from the assets, no part of the debt is classified as a current liability. With respect to other long-term debt, principal payments due within twelve months of the balance sheet date are classified as current liabilities.

(g) Inventories

Inventories are valued at lower of cost and net realizable value.

2. WIND-DOWN OF CONSTRUCTION DIVISION

During the year the Company commenced the wind-down of its Construction Division and the sale of the construction equipment. Subsequent to the year end, the wind-down was completed and the remaining assets of the division were sold. The Company has recorded the costs of this wind-down including the final loss on the disposition of the equipment, in the current year. Included in accounts receivable is \$626,621 being the proceeds on the sale of equipment, and included in Extraordinary Loss on Sale of Divisions is \$238,396, net of income tax recovery of \$187,310, being the loss of the disposition of the equipment and other wind-down costs. The operating results of the Construction Division have been classified in the Consolidated Statement of Earnings under the caption "Loss From Discontinued Operation" and are as follows:

	1977	1976
REVENUE	\$ 262,177	\$ 1,171,655
COST AND EXPENSES		
Cost of sales	290,683	982,366
General and administrative	96,099	112,854
Depreciation	25,961	89,677
	412,743	1,184,897
LOSS BEFORE TAXATION	150,566	13,242
INCOME TAX RECOVERY	66,249	6,225
LOSS	\$ 84,317	\$ 7,017

3. INVENTORIES

All inventories are held for resale and comprise:

	1977	1976
Equipment	\$2,643,910	\$1,848,713
Parts	968,259	560,089
Land	395,424	393,500
Miscellaneous supplies	13,744	13,346
	\$4,021,337	\$2,815,648

4. FIXED ASSETS

Fixed assets comprise:

	1977			1976
	COST	DEPRECIATION & DEPLETION	NET	NET
Petroleum and natural gas properties	\$14,609,013	\$1,500,730	\$13,108,283	\$12,466,720
Mineral properties	957,110	—	957,110	432,873
Land, buildings and equipment	862,059	134,556	727,503	876,576
Construction equipment	—	—	—	1,349,077
Miscellaneous	325,627	109,619	216,008	195,804
	\$16,753,809	\$1,744,905	\$15,008,904	\$15,321,050

5. LONG-TERM DEBT

Long-term debt comprises:

	<u>1977</u>	<u>1976</u>
Oil and gas production loans, interest at 1½ % over prime Canadian bank rate, payable in varying installments to 1983.	\$8,750,000	\$7,278,428
Bank term loan, interest at 1½ % over prime Canadian bank rate, payable in equal installments to 1980.	186,666	—
Unsecured notes, interest at 9.75%, payable in 1977.	—	159,468
Other	—	127,500
	<u>\$8,936,666</u>	<u>7,565,396</u>
Less current maturities (Note 1f)	<u>80,000</u>	<u>159,468</u>
	<u>\$8,856,666</u>	<u>\$7,405,928</u>

Payments required in the next five years to meet installments on the above debt are:

Year ended September 30, 1978	\$1,240,000
1979	1,820,000
1980	1,766,000
1981	1,740,000
1982	1,740,000

6. BUSINESS LOSSES

The tax effect of business losses of subsidiaries have not been recognized in the financial statements. The losses of \$213,000 for 1975, \$662,000 for 1976, and \$550,000 for 1977, are deductible from otherwise taxable income of those subsidiaries until 1980, 1981, and 1982 respectively.

7. ASSETS SUBJECT TO LIEN OR PLEDGE

The bank indebtedness is secured by a general assignment of book debts and a floating charge debenture. This debenture requires the approval of the bank prior to the payment of any dividend. The Company's oil and gas properties are charged to secure the oil and gas production loans.

8. STATUTORY INFORMATION

In 1977 the Company and its subsidiaries paid \$363,750 remuneration to directors, officers and senior employees.

In 1976 the Company advanced \$75,721 to an officer for the purchase of a residence. The Company holds a first mortgage on the property. Of the balance outstanding at September 30, 1977, \$6,000 is included in account receivable and \$63,721 is included in other assets.

Included in current liabilities are amounts aggregating \$90,178 due to a director and officer and companies controlled by him.

Thorne
Riddell
& Co.

CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Shareholders of
PanCana Industries Ltd.

We have examined the consolidated balance sheet of PanCana Industries Ltd. as at September 30, 1977 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at September 30, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
December 23, 1977

A handwritten signature in dark ink, reading "Thorne Riddell & Co." in a cursive script.

Chartered Accountants

HEAD OFFICE

736 Eighth Avenue S.W.,
Calgary, Alberta T2P 1H4

DIVISION OFFICES

ELECTRONICS

Western Electronics Systems
5826 Burbank Road S.E.
Calgary, Alberta T2H 1Z3
Gen. Manager — W. Otto

EQUIPMENT

W. E. Bolt Equipment Ltd.
6304 Burbank Road S.E.
Calgary, Alberta T2H 2C2
President — W. E. Bolt

W.E. Bolt Equipment Ltd.
5419 - 82nd Avenue
Edmonton, Alberta T6B 2J6
Branch Manager — R. McLeroy

AUDITORS

Thorne Riddell & Co.
Calgary, Alberta

MINING

PanCana Industries, Inc.
1104 W. Main Street
P.O. Box 988
Elko, Nevada 89801
Gen. Manager — D. W. Houdasheft

OIL AND GAS

Admiralty Oil & Gas Ltd.
736 Eighth Avenue S.W.
Calgary, Alberta T2P 1H4

Llano Oil & Gas Ltd.
736 Eighth Avenue S.W.
Calgary, Alberta T2P 1H4

PanCal Oil & Gas Ltd.
736 Eighth Avenue S.W.
Calgary, Alberta T2P 1H4

PanCana Industries, Inc.
231 - 300 North Linam
P.O. Box 2278
Hobbs, New Mexico 88240
Area Manager — B. Veteto

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company — Calgary, Montreal
Toronto, Winnipeg, Regina and Vancouver.

SHARES LISTED

Common shares listed on Toronto Stock Exchange.

AR30

HEAD OFFICE:

736 Eighth Avenue S.W.
Calgary, Alberta T2P 1H4

DIVISION OFFICES:

Construction

Bain Bros. Construction
8525 Argyll Road
Edmonton, Alberta T6C 4B2

Electronics

Western Electronics Systems
5826 Burbank Road S.E.
Calgary, Alberta T2H 1Z3

Equipment

W. E. Bolt Equipment Ltd.
6304 Burbank Road S.E.
Calgary, Alberta T2H 2C2

W. E. Bolt Equipment Ltd.
5419 - 82nd Avenue
Edmonton, Alberta T6B 2U6

Mining

PanCana Industries, Inc.
1104 W. Main Street
P.O. Box 988
Elko, Nevada 89801

Oil and Gas

Admiralty Oil & Gas Ltd.
736 Eighth Avenue S.W.
Calgary, Alberta T2P 1H4

Llano Oil & Gas Ltd.
736 Eighth Avenue S.W.
Calgary, Alberta T2P 1H4

Northern Geophysical Ltd.
736 Eighth Avenue S.W.
Calgary, Alberta T2P 1H4

PanCana Industries, Inc.
231 - 300 North Linam
P.O. Box 2278
Hobbs, New Mexico 88240

PAN CANA
INDUSTRIES LTD.
400 - 736 - 8th Avenue S.W.
Calgary, Alberta, Canada
T2P 1H4

Mr. R. J. Doyle
TORONTO GLOBE & MAIL
140 King Street West
TORONTO, Ontario M5H 1J5



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PAN CANA
INDUSTRIES LTD.

INTERIM REPORT

FOR THE 6 MONTHS ENDED MARCH 31, 1977

**TO THE SHAREHOLDERS OF
PANCANA INDUSTRIES LTD.**

In the six months ended March 31, 1977 the Company recorded a net loss of \$349,000 or 8 cents per share. The main reasons for the loss were some reduction in our gas production and considerably higher interest costs.

For the second quarter the Construction and Equipment Divisions again were in a loss position. The activity level was somewhat higher than in the first quarter but neither of these divisions produced a profit.

Gas production was reduced in the quarter because of lack of compression facilities at our Wainwright property. The compression facilities are currently being installed and we anticipate a return to normal production levels by the end of the third quarter. We should also realize increased levels of production from our Irvine and Bantry interests in the third quarter with the completion of in-fill drilling and plant installation programs.

Testing was completed on the two gas wells in East Texas in which we participate. The C. M. Mayes #1 well has an absolute open flow of 200 million cubic feet per day with 30 barrels of condensate per million cubic feet of gas. The C. E. Turner #1 well tested sweet gas from the Cotton Valley Lime-stone at a flowing rate of 3.9 million cubic feet per day with 6 barrels of condensate per million cubic feet of gas. The Cotton Valley Sand Zone in this well will be completed and tested shortly. We anticipate that the C. E. Turner well will start production by August of this year. The C. M. Mayes well will require the construction of sulphur extraction facilities and will probably go into production in early 1979. Pan-cana has a 13 per cent working interest in these wells reverting to 10 per cent after payout.

We anticipate some improvement in results in the third quarter and a strong final quarter for the current year.

May 20, 1977

President

Do Nicholson

**PANCANA INDUSTRIES LTD.
AND SUBSIDIARY COMPANIES**

Consolidated Statement of Earnings

(Unaudited)

	Six Months Ended March 31 1977	1976
REVENUE	\$ 2,847,000	\$ 3,159,000
COSTS AND EXPENSES		
Cost of sales and direct contract costs	1,981,000	2,014,000
General and administration	483,000	580,000
Depreciation and depletion	339,000	315,000
Interest	515,000	347,000
	3,318,000	3,256,000
LOSS BEFORE TAX AND EXTRAORDINARY GAIN	(471,000)	(97,000)
RECOVERY OF INCOME TAXES	122,000	11,000
LOSS FOR THE PERIOD	(349,000)	(86,000)
EXTRAORDINARY GAIN ON SALE OF DIVISIONS, net of tax	—	1,213,000
NET EARNINGS (LOSS)	\$ (349,000)	\$ 1,127,000
EARNINGS (LOSS) PER SHARE		
Continuing Operations	(8¢)	(2¢)
Extraordinary Gain	—	29¢
	(8¢)	27¢

**Consolidated Statement of Changes
in Financial Position**

(Unaudited)

	Six Months Ended March 31 1977	1976
SOURCE OF WORKING CAPITAL		
Operations, after adjustments for non-cash items	\$ (132,000)	\$ 218,000
Increase in long-term debt	721,000	88,000
Reduction in notes receivable	110,000	—
Proceeds on sale of divisions	—	3,921,000
Other	60,000	17,000
	759,000	4,244,000
APPLICATION OF WORKING CAPITAL		
Fixed asset additions (net)	899,000	535,000
	899,000	535,000
WORKING CAPITAL INCREASE (DECREASE)	\$ (140,000)	\$ 3,709,000